Second Quarter 2021
Market Recap
Performance Review
and Near-term Outlook

Market Recap

Q2 2021 saw gains in most stock market indexes, with many closing at or near all-time highs. This is not surprising, as markets continue to be driven by meaningful progress on vaccination rates, accommodative monetary policy, record-shattering fiscal stimulus, and strong corporate earnings growth driven by the reheating of global economies.

Both large and small US company stocks were up again, with large company stocks besting their small company counterparts during Q2. However, small company stocks still command a healthy lead in the US on both a year-to-date and a rolling one-year basis. International stocks also remained strong with emerging market companies outperforming. Bonds bounced back some during Q2 but are still generally down in 2021. Our tactical moves with client bond allocations during 2021 have resulted in mostly positive outcomes, however.

During Q1's Recap, we talked about the performance difference between growth company stocks (Technology, Consumer Discretionary, and Communication Services) whose prices are heavily dependent upon future earnings potential – usually earnings expectations for many years into the future – versus cyclical stocks (Financials, Energy, and Industrials) that are highly dependent upon the current stage of the economic lifecycle. During Q1 cyclical stocks outperformed growth stocks as global economies started to reheat. But growth stocks outperformed in Q2 as "peak growth" concerns and a reversal in interest rates provided a quantitative boost – in the form of lower discount rates – to their market prices

As measured by the Russell 3000 Index, a measure of the largest 3,000 US companies and a proxy for the complete US stock universe, US stocks climbed +8.24% during Q2, for a one-year return of +44.16%. The tech-heavy growth component climbed a robust +11.38%, for a one-year return of +42.99%. The long-unloved value component climbed +5.16%, for a one-year return of +45.40%. Growth oriented strategies certainly closed much of the post-election performance gap versus cyclical strategies, though not all.

> Patience is a virtue.
>
> - Prudentius
>
> When it comes to investment performance, patience is likely the most profitable of virtues.
>
> - Me

The cyclical-to-growth rotation reveals itself clearly within market sector returns. The cyclical sectors that lead so dramatically during Q1 did trail significantly during Q2. Industrials (-2.22% Q2), Financials (-2.98% Q2), and Materials (-5.23% Q2) – cyclical sectors that we have underweighted for several years – were no match for our growth-oriented sector portfolio over-weights in Health Care Tech/Medical Devices (+9.29% Q2), Technology (+6.94% Q2), and Communications (+2.99% Q2).

Rather than choose only one style over the other, Lake Jericho constructs diversified portfolios across asset types, geography, and other performance factors. Perhaps more meaningfully, we overweight allocations towards those sectors that we expect to provide the greatest economic benefit, and meaningfully underweight others.

Because our investment horizon is, most typically, long-term, and we do actively manage sector positioning, our performance during any single quarter, or even a full year, might significantly deviate from market averages. We have been for some time, and are at this point in the economic cycle, meaningfully biased toward growth-oriented strategies. While that negatively impacted performance during Q1, the reversal in fortunes during Q2 provided a significant tailwind for Lake Jericho managed portfolios.

Performance Review

Lake Jericho managed and advised portfolios are typically invested in some variation of either one of two strategies - either (1) a global-macro strategy broadly diversified by geography, asset type, and sector, executed via exchange traded funds, or (2) a concentrated individual stock/bond strategy heavily biased towards US large-company technology, health care, and consumer-focused stocks. Within each strategy the sector, asset type, and geographic diversification or concentrations have meaningful impact upon returns.

As discussed during the Q1 Review, the unwinding of the "re-opening" trade was already underway. As those influences continued to soften during Q2, moving back towards long-run trend, our individual stock/bond portfolio positions closed the performance gap that had accrued in those early post-election months. In contrast, our global-macro strategy, constructed with broad diversification more linked to top-line total market performance factors independent of individual security performance, and with a constant commitment to small- and mid-sized company stocks, has provided for meaningful outperformance throughout 2021.

Reviewing the bulleted benchmark returns that follow, you will see where and how Lake Jericho managed and advised portfolio returns were impacted. Within the tabled data attached, we present the iShares (by Blackrock) Core Allocation ETF Portfolio Series benchmarks. Lake Jericho provides the tabled information for a relative performance comparison against independent, balanced, globally diversified strategies managed to similar risk profiles.

- The Dow Jones Industrial Average, 30 "blue-chip" US companies with an industrial company bias, finished Q2 with a total return of +5.08%, for a year-to-date return of +13.79% and a one-year total return of +36.34%.
- The S&P 500® Index, a broad, but committee selected index of 500 large-cap US companies, finished Q2 with a total return of +8.55%, for a year-to-date return of +15.25% and a one-year total return of +40.79%.
- The technology and consumer-cyclical heavy NASDAQ Composite Index finished Q2 with a total return of +9.68%, for a year-to-date return of +12.92% and a one-year total return of +45.23%.
- Small- and mid-sized companies, as a group measured by the Russell 2500™ Index, finished Q2 with a total return of +5.44%, for a year-to-date return of +16.97% and a one-year total return of +57.79%.
- International developed markets, as measured by the MSCI World (ex-USA) Investable Market Index, finished Q2 with a total return of +5.52%, for a year-to-date return of +9.92% and a one-year total return of +34.82%.
- International emerging markets, as measured by the MSCI Emerging Markets Investable Market Index, marginally bested their developed markets counterparts to finish Q2 with a total return of +5.73%, for a year-to-date return of +8.75% and a one-year total return of +43.21%.
- The Bloomberg Barclays US Aggregate Bond Index, a measure of the performance of the US investment grade bond market, finished Q2 with a total gain of +1.83%, for a year-to-date loss of -1.60% and a one-year total loss of -0.33%.

Near-term Outlook

2021 has already been a strong year for the US market. For international markets as well, though they generally do trail the US thus far during 2021. As I prepare to push out this Q2 Outlook, the S&P 500® Index is now up about 17% year-to-date. The Dow and Nasdaq are both up about 15%. Our international investments are up about 7%, beaten down a bit now due to Covid variant concerns in many markets. Bonds, as stated, are essentially flat.

But index-level gains do not tell the full story of what is happening in the market. What we see under the surface of many indexes hitting record highs is a rolling correction with sectors, styles, and factors moving in to and out of market favor. Frankly, despite quite good out outcomes thus far it has been a particularly challenging year. Speaking with other professional investors, the general feeling is that many are looking pensively over their shoulder. People are ready for the other shoe to drop, and for the stock market gains to come crashing down.

For all the talk of overheated stock markets, the US economy is doing quite well. Nearly all measures are showing positive signs of economic growth. For the country's biggest businesses, it doesn't take much beyond looking at the expected growth in corporate earnings of companies within the S&P 500® Index to justify current valuations. When looking at surveys, optimism about the US economy is abundant. And consumers have not been this confident in their prospects since before the pandemic began. Personal income and personal spending are both strong. The data simply does not match the impressions gained from anecdotal conversations.

But as civic life moves towards "normal", economic and financial risks have arisen. While I remain largely unconcerned, there are two risks that have gathered a lot of press, and that could be problematic depending upon the lens through which you see them.

- First, inflation in some sectors of the global economy has heated up to levels not seen in decades.
- Second, a mania of speculative investment phenomena has gripped the market as retail traders have emerged as a force, particularly so amongst a list of "meme" stocks and cryptocurrencies.

The question for policy makers and investors alike is whether these concerns are transitory noise or meaningful market signals. If just noise – the frictional heat of a reheating global economy – then those risks are indeed transitory and will soon dissipate. But if signals of more persistent structural risks? Then changes in monetary and regulatory policy could be ahead.

But data from a recently published report suggests that during years in which the market is up similarly as performance enjoyed thus far during 2021, the S&P 500® Index through the balance of the year tends to deliver stronger-than-normal returns. Bespoke Investment Group looked at the S&P 500® Index performance for each year since 1928 and pulled out the 10 years with year-to-date paths most correlated to 2021. In those years, the average gain for the S&P 500® Index through mid-July was 20.1%, with a median return of 18.8%. With this year's gain of about 17%, we are relatively close to the median of the 10 prior years.

"The S&P 500® Index 's median rest-of-year performance in those 10 years was a gain of 7.1% with positive returns 70% of the time" the firm noted. "Compared to all years since 1928…with a median rest of year gain of 4.0%…the rest-of-year gain in these 10 years was considerably stronger than for all years since 1928."

Not only do stocks most typically continue grinding higher in this type of environment, but they tend to do so with less-than-normal volatility. In only two of the 10 years most like 2021 has the second half of any year experienced a downturn of more than 10% from the mid-year highs. The median correction from mid-year highs only amounted to a 2.3% drop.

I have no idea what happens next. What I do know is that no person on the planet has ever been able to consistently, profitably time markets. My efforts focus on monitoring, following, and when possible improving, our process. Based upon the data, and market history, I am currently comfortable with all portfolio positioning - positioning that serves to capture as much upside as possible during good times, patiently endure downturns when they occur, and leverages our ability to more than make up for downturns on market reversal.

As always, I am available to discuss anything within this Outlook, or your own specific portfolio performance questions. Please reach out at any time, any day of the week. Until then, be well. And thank you for your continued trust and support!

A.J. Walker, CFA CFP® CIMA®
Founder, President, and CEO
Lake Jericho, LLC

Lake Jericho is an independent, fee-only, registered investment advisory firm (CRD #173782). Headquartered in Chicago, registered in both Illinois and Kentucky, Lake Jericho serves many types of clients across the country. Lake Jericho adheres to the fiduciary standard in the provision of financial research and education, financial planning and advice, and discretionary investment management services to individuals and their families, trusts, foundations, endowments, qualified plan sponsors, the not-for-profit and the for-profit business communities. Additional information about Lake Jericho is available on the SEC's website www.adviserinfo.sec gov.

Performance quoted within this work is past performance and is not a guarantee of future results. Diversification does not eliminate the risk of loss or guarantee expected investment outcomes. Opinions and estimates offered constitute our judgment at the time of writing and are subject to change without notice, as are statements of financial market trends, which are based on market conditions at the time of writing. We believe the information provided here is reliable, but despite diligent efforts, mistakes happen. Therefore, we do not warrant accuracy or completeness. This material is not intended as an offer of service, or solicitation for the purchase or sale of any financial instrument. The views and strategies described will not be suitable for all investors. This includes, perhaps, you and your specific situation. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, accounting, legal or tax advice. References within to future returns, or expectations for future returns, are not promises of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation for any audience other than an intended recipient.

The iShares Core Allocation ETF Portfolio Benchmark Series
Total Return Comparisons For All Periods Ending June 30, 2021

Core Allocation Portfolio (Ticker)	Q2 2021	YTD 2021	1 Year Return	3 Year Total Return	5 Year Total Return
Conservative (AOK)	3.27%	3.12%	11.41%	25.89%	37.06%
Moderate (AOM)	3.80%	4.60%	15.19%	29.08%	44.57%
Growth (AOR)	4.85%	7.48%	23.11%	35.38%	60.43%
Aggressive (AOA)	5.87%	10.34%	31.25%	41.53%	77.08%

The iShares Core Allocation ETF Portfolio series is designed to meet the needs of investors who would like to maintain fixed target levels of exposure through a portfolio diversified across domestic, international, and emerging market equities, bonds, and other instruments. The Core Conservative Allocation Strategy seeks approximately 30% exposure to global equity markets. The Core Moderate Allocation Strategy seeks approximately 40% exposure to global equity markets.. The Core Growth Allocation Strategy seeks approximately 60% exposure to global equity markets. The Core Aggressive Allocation Strategy seeks approximately 80% exposure to global equity markets. Presented here is the iShares Core Allocation ETF Portfolio Benchmark NAV total return performance as reported by iShares, constructed with no investment advisor fees, and with no transaction costs, while Lake Jericho portfolio performance is actual performance, net of all fees, including investment management, administration, and transaction expenses.